



State Audit

Summary Action Plan

Presented by City of Lincoln Interim City Manager

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March 26, 2019

What is the audit?

- Joint Legislative Audit Committee (JLAC)
- State legislative committee formed of members of the Senate and the Assembly
- State Auditor tasked with completing audit
- Audit began May 2018
- Audit reviewed:
 1. Management of public funds and assets
 2. Financial controls and processes
 3. Financial reporting
 4. Fees and rates
 5. Compliance with laws, regulations, and policies

Why was there an audit?

Concerns were raised regarding the City's:

1. Transparency
2. City finances
3. Water rates
4. Municipal utility use


What did the audit focus on?

- Financial policies and procedures
- Restricted fund accounting
- Rates and fees
- Municipal utility use
- Interfund Loans

Audit Findings

- Final report issued March 21, 2019
- Audit findings
 1. Primarily financial
 2. All fixable
 3. Most corrective actions are already underway
- Comprehensive overhaul of the Finance Department initiated December 2018
- Remedy issues and improve fiscal health and functioning of the City

Annual Financial Audit Findings

- State audit recommendations parallel annual financial audit findings
 - Several repeat findings
 - Primarily related to lack of processes and procedures
 - Corrective action implementation
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Recommendation - Interfund Loans

What is an interfund loan?

- Loans between funds
- Loan agreement terms
 - Reasonable repayment schedule
 - Interest rate
 - The borrowing fund needs to demonstrate ability to repay
- 7 outstanding loans
 - \$7.65 M related to construction of the firehouses
 - \$2 M purchase of land for Lakeview Farms Detention Basin
 - \$4.4 M former Redevelopment Agency (paid back by state)
 - \$1.4 M Airport Hangars (debt service paid by airport)
- 1 new loan needed to address \$5 M in airport debt

No.	Date of Loan	Maturity Date	Purpose of Loan	Original Advance	Lender		Borrower		Total Interest and Principal Balance
						Name	Fund	Name	
10	06/30/18	06/30/28	Completion of Regional Retention Facility CIP 181	1,856,200.00	735	Solid Waste Non-Ops	247	PFE Drainage	1,000,000.00
12	01/27/10	01/15/13	Funding redevelopment projects	3,311,527.68	225	PCWA WCC	284	Fund 284 SA to RDA	4,161,638.67
14	06/30/10	06/30/15	For the purpose of financing the SERAF payment to State of Calif.	871,819.00	283	Low-Mod Housing Fund	284	Fund 284 SA to RDA	220,616.31
15	09/27/88	TBD	Funding redevelopment projects	240,738.00	720	Wastewater Enterprise Fund	284	Fund 284 SA to RDA	0.00
17	07/01/16	06/30/26	Refi. Original loan, add additonal funds required to construct Fire# 33 and 334	5,300,000.00	225	PCWA WCC	242	Fire PFE	5,336,040.00
19	07/01/16	06/30/26	Refi. Original loan, funds required to construct Fire# 33 and 336 and result in positive cash balance	2,300,000.00	290	Oak Tree Mitigation	242	Fire PFE	2,315,640.00
20	06/30/17		Refinance of hangar debt	1,576,355.00	955	LPFA	750	Airport	1,438,178.01
21	06/30/18	06/30/28	Regional Retention Facility	1,010,000.00	240	Transportation	247	Drainage	1,010,000.00

Action Plan - Interfund Loans

- Evaluate all loans to determine whether borrowing funds can repay the loans according to terms & if loan complies with 2013 Interfund Loan Policy
- Develop plan for non-compliant loans
 - New loan agreements
 - Sources for payment
 - New loan for Airport Debt
 - Impacts to General Fund
 - Full payment long-term strategy


Action Plan Schedule - Interfund Loans

Task Name	Duration	Start	Finish
Task 1: Review interfund loans for compliance	13 days	Thu 3/21/19	Mon 4/8/19
Task 2: Develop repayment plan for each loan	88 days	Tue 4/9/19	Thu 8/8/19
Task 3: Present plan to City Council	0 days	Tue 8/13/19	Tue 8/13/19

Recommendation – Fund Surplus

- Establish policies and procedures requiring review of fund balances at least annually and, if necessary, reduce its fees within a reasonable timeframe. (August 2019)
 - Will be a component of budget policy
 - Address annually during annual budget adoption process
 - Will be one policy that will be implemented on a fund by fund basis

Action Plan – Fund Surplus

- Will be a component of budget policy
 - Address annually during annual budget adoption process
 - Implemented on a fund by fund basis
 - Account for:
 - Reserves
 - Future planned projects
 - Purpose of fund
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Action Plan Schedule – Fund Surplus

Task Name	Duration	Start	Finish
Recommendation 1B: Establish Policies and Procedures to avoid accumulation of unneeded surpluses	24 days	Thu 3/21/19	Tue 4/23/19
Task 1: Prepare budget policy	8 days	Thu 3/21/19	Mon 4/1/19
Task 2: Present Policy to City Council	0 days	Tue 4/2/19	Tue 4/2/19
Task 3: Revise per Council input	12 days	Wed 4/3/19	Thu 4/18/19
Task 4: Council adoption of budget Policy	0 days	Tue 4/23/19	Tue 4/23/19

Recommendation – Due To/Due From Loan Transactions

- Discontinue using restricted funds to subsidize other funds that have year-end deficits and the lack to permanently repay within 90 days of close of the fiscal year
 1. Short-term loans required for cash flow at fiscal year-end are allowed if repaid within approximately 90 days
 2. Primarily related to the outstanding airport debt
 - Requires formal interfund loan agreement

Action Plan -Due To/Due From Loan Transactions

- Primary issue is related to Airport Debt (\$5 M)
- Require Airport Interfund agreement
 - General Fund

Action Plan Schedule – Due To/Due From

Task Name		Start	Finish
Recommendation 1C: Discontinue use of due to/due from	39 days	Thu 3/21/19	Tue 5/14/19
Task 1: Agreement for Airport debt	36 days	Thu 3/21/19	Thu 5/9/19
Task 2: Present to City Council	0 days	Tue 5/14/19	Tue 5/14/19

Recommendation – Lighting and Landscaping District

- Establish accounting procedures to ensure all costs are paid for by the appropriate funds and apportion general benefit cost
- Establish accounting procedures to properly account for Lighting and Landscaping expenditures
 1. Account for revenues & expenditures by zones
 2. Apportion special vs general benefit

Action Plan – Lighting and Landscaping District

- Included accurate zone analysis in Engineer's Report approved by City Council on June 12, 2019
- Began tracking expenditures and revenues by zone July 1, 2018
- Approved budget includes funds for the estimated cost of general benefit plus the cumulative zone deficit
 - Payment by General Fund
 - Estimated to be \$700k for current fiscal year
- Reducing expenditures
- Long term solutions
 - Reduce services, or
 - Assessment increase subject to voter approval

Action Plan – Lighting and Landscaping District

- Audit recommendation finalized and substantiate at fiscal year end with final payment of zone deficit and general benefit
- Solving the existing zone deficit issues will be a longer term task
- No audit implementation schedule needed



Recommendation – Staff Reports

- Collaborate with City Council to develop expectations for staff report content
 - Require enhanced legal and fiscal analysis

Action Plan – Staff Reports

- Propose new staff report template to City council to develop new staff report template
- Implement staff training
- Enhanced legal and fiscal analysis

Task Name	Duration	Start	Finish
Recommendation 1F: Staff Report Format	24 days	Thu 3/21/19	Tue 4/23/19
Task 1: Develop new report format	21 days	Thu 3/21/19	Thu 4/18/19
Task 2: Present to City Council	0 days	Tue 4/23/19	Tue 4/23/19

Recommendation – Water Connection Fees

- Immediately begin fee study to ensure water capacity fees are commensurate with costs of current and future needs
- Develop a plan to provide consideration if there was overpayment (implementation is underway!)
 - Council took action to adjust fees on 12/11/2018
 - Fund balance approximately \$40 M
 - Historic practice of relying on PCWA nexus fee studies
 - Existing contract capacity & groundwater wells
 - Subject of Grand Jury Investigation

Action Plan – Water Connection Fees

- Council approved consultant contract March 12, 2019
- Fee study to be completed by June 30, 2019
- Fee study will set fee for water capacity going forward & inform any nexus for the future use of water connection revenue on hand
- If no nexus is identified, the City Council will then evaluate equitable consideration and public benefit of addressing surplus
- Fund balance approximately \$40 M

Action Plan – Water Connection Fees

Task Name	Duration	Start	Finish
Recommendation 2A: Water Connection Fee Study	114 days	Thu 3/21/19	Tue 8/27/19
Task 1: Complete draft fee study	76 days	Thu 3/21/19	Thu 7/4/19
Task 2: Present to City Council	0 days	Tue 7/9/19	Tue 7/9/19
Task 3: Prepare ordinances	22 days	Wed 7/10/19	Thu 8/8/19
Task 4: First read of ordinance	0 days	Tue 8/13/19	Tue 8/13/19
Task 5: Second read	0 days	Tue 8/27/19	Tue 8/27/19

Recommendation – Timeline for Fee Studies

- To ensure that its fees are commensurate with the cost of providing services, Lincoln should develop and follow a timeline by June 2019 for conducting periodic fee studies for each of its services, including updating its staff rates annually

Action Plan – Timeline for Fee Studies

- Schedule is Complete
- **Water Rates:** Complete. New rates were implemented October 1, 2018
- **Solid Waste and Wastewater Rates:** Studies are underway. Draft rates are expected to be presented to City Council by August 2019
- **Public Facility Element (PFE) Study:** Draft study completed. Final study anticipated to be presented to City Council by June 30, 2019

Action Plan – Timeline for Fee Studies cont'd

- **Master Fee Schedule:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019
- **Cost Allocation Plan:** Contract awarded for preparation of the study on February 26, 2019. Anticipate completion by June 30, 2019
- **Water Connection Nexus Study:** Proposals received Contract authorized by City Council March 12, 2019
- Recommendation Completed

Recommendation – Municipal Utility Use

- Develop a plan by August 2019 to provide equitable consideration to ratepayers for the utility costs they incurred that were higher than necessary because of the City's nonpayment of municipal utility use
- Use of water, sewer, and garbage by City funds
- Violation of Proposition 218

Action Plan – Municipal Utility Use

- City began paying for municipal utilities in the 17/18 Fiscal Year
- The City Council originally addressed this item at its March 13, 2018 meeting
- City Council postponed any decision until the completion of the audit
- Consideration of refunds:
 - Impacts to General Fund
 - Impacts to Other Funds
 - Cost of issuing refunds
 - Public benefit
- Revisit at April 23, 2019 City Council Meeting

Recommendation – Municipal Utility Use cont'd

- Lincoln should be specific in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste

Action Plan— Municipal Utility Use cont'd

- Lincoln should be specific in its annual budget the amount that it intends to spend for the use of municipal utilities—water, sewer, and solid waste
 1. Implementation is underway!
 2. City began paying for municipal utility use July 1, 2017
 3. Will separate costs into a separate line item in the 2019/2020 Annual Budget
 4. Complete when 2019/2020 Budget adopted

Recommendation – Financial Procedures and Policies

- By August 2019, establish policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices
 1. Accounting, Budgeting, Purchasing, Accounts Payable, Accounts Receivable, and Utility billing
 2. Primary cause of findings in annual financial audit
 3. Could take several years to for changes to result in clean audit

Action Plan – Financial Procedures and Policies

- By August 2019, establish policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices
 1. Closing Policy and a Grants Management Policy adopted February 2019
 2. Budget policy to be proposed at April 2, 2019 City Council Workshop
 3. Accounting and Financial Reporting Policy that will be presented to City Council for consideration on 7/23/2019
 4. Staff recommends changes to the Finance Committee structure

Recommendation – Budget Policy

- By July 2019 develop budget policy and update department head duty statements to reflect requirements
- Identify all information Council expects to receive to review and approve budget

Action Plan – Budget Policy


- Recommendation underway
- Draft policy to be proposed to City Council April 2, 2019
- Changing format of budget
- Increase transparency
- Increase community input

Recommendation - Purchasing

- Develop and implement procedures for staff to obtain and document the required approval from the City Manager or the City Council before committing City resources.
- Report to the City Council on a regular basis all purchases that the City Manager approves



Action Plan– Purchasing


- Staff is currently developing procedures
 - Review of Municipal Code, revise if necessary
 - Provide staff training
 - Began reporting to the city council all purchases that the city manager approves tonight
 - Complete review of purchasing procedures by April 19, 2019
 - Staff training by May 10, 2019
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Recommendation – Annual Financial Audit

Track and report progress on addressing outstanding audit recommendations at least quarterly

1. Report quarterly to Financial Investment and Oversight Committee + City Council
2. 2016/2017 Annual Financial Audit had 8 current year items and 2 from prior years
 - No financial close procedures
 - Loan receivable accounting issues
 - Capital assets and compensated absences not reconciled to general ledger
 - No grants management policy
 - Interfund loans (previous audit finding)
 - Successor agency compliance (did not post required annual report by deadline)
 - Special assessment debt funds (bonds, fiscal agent,
 - Single-Audit Report filed late to federal government
 - Prior period adjustments (previous audit finding)

Action Plan – Annual Financial Audit

- Comprehensive Business Improvement Initiative
 - New policies
 - Grants
 - Closing
 - Budget
 - Accounting and Reporting
 - Report on progress quarterly to City Council and Finance Committee
 - May take several years to complete
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Recommendation – Year End Close And Preparation of CAFR

- Develop and follow a process to ensure that it accurately and promptly records all year-end closing entries in its general ledger and issues its CAFR on time
 - Missed federal deadline last year
 - Reconciliations
 - Lack of closing policy and procedures

Action Plan – Year End Close And Preparation of CAFR

- Completed
- Closing Policy adopted on February 12, 2019
 - Reconciliations
 - Monthly closings

Recommendation – Master Fee Schedule

- Update and publicly disclose its master fee schedule to reflect the fees that it actually charges
- Review and update fees to incorporate costs to ensure fee reflects cost to provide service

Action Plan – Master Fee Schedule

- Implementation underway!
- Review of current fees underway
- City Council approved a contract for services to complete a comprehensive update to the Master Fee Schedule and Cost Allocation Plan February 26, 2019
- To be completed by July 23, 2019

Action Plan Schedule – Master Fee Schedule

Task Name	Duration	Start	Finish
Recommendation 4A: Master Fee Schedule	114 days	Thu 3/21/19	Tue 8/27/19
Task 1: Complete Initial Update	12 days	Thu 3/21/19	Fri 4/5/19
Task 2: Complete Draft Fee Schedule	111 days	Thu 3/21/19	Thu 8/22/19
Task 3: City Council consideration	0 days	Tue 8/27/19	Tue 8/27/19


Recommendation – Developer Fees and Fee Credits

- Develop policies and procedures by September 2019 for establishing fee credits
 1. Developer paid
 2. Associated with Development Agreements of the Public Facility Element Study (PFE)

Action Plan – Developer Fees and Fee Credits

- Develop policies and procedures by September 2019 for establishing fee credits
 1. Implementation is underway!
 2. Need to book credits owed as liabilities
 3. Will be addressed through new Public Facility Element (“PFE”) study
 4. Currently in draft form
 5. Anticipated to be presented by June 30, 2019

Upcoming Opportunities for Community Engagement

- April 2, 2019, City Council Workshop. The workshop will be dedicated to many of the audit items related to the handling of the City's finances.
 - April 23, 2019, City Council Meeting. Addressing audit recommendations related to budget policy, municipal utilities, and staff reports.
 - May 14, 2019, City Council Meeting. Addressing audit recommendation regarding short term interfund loans.
 - July 9, 2019, City Council Meeting. Addressing audit recommendation regarding water connection fees.
 - July 23, 2019, City Council Meeting. Addressing audit recommendation regarding a Accounting and Reporting policy.
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Upcoming Opportunities for Community Engagement

- Meetings with staff
 - Thursday, March 28, 2019
 - 10 AM City Hall
 - 6 PM Twelve Bridges Library
 - Purpose to allow opportunity for community to ask in-depth technical or operational questions
 - Less formal session
 - Will be video taped



Moving Forward

- Complete comprehensive business process improvement initiative
- Implement audit recommendations
- Report on progress at 60 days and 6 month intervals and annually thereafter
- Engaging residents to address the heart of the City's challenges
 1. Shortfall in General Fund revenue
 2. Lighting and Landscaping Deficit
 3. Decreased public safety service levels
- Improve the overall fiscal health and function of the City
- Become the best version of Lincoln!

Have questions?
Please reach out to me at
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